

# ORIGINAL

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matters of )

Implementation of the )  
Telecommunications Act of 1996: )

Reform of Filing Requirements )  
and Carrier Classifications )

Anchorage Telephone Utility, )  
Petition for Withdrawal of Cost )  
Allocation Manual )

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

CC Docket No. 96-193

AAD 95-91

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REPLY COMMENTS OF AT&T CORP.

Pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM"), FCC 96-370, released September 12, 1996, and Section 1.415 of the Commission Rules, AT&T Corp. ("AT&T") submits these reply comments on the Commission's proposed amendments to its rules governing the filing of cost allocation manuals ("CAMs") and ARMIS reports required of incumbent local exchange carriers ("ILECs").

In the NPRM the Commission proposes to retain the 60-day advance notice requirement for CAM changes relating to cost apportionment and time reporting (§§ 20-21); to adjust for inflation the revenue thresholds in Parts 43, 32.11 and 64.903 of its rules based on the Department of Commerce Gross Domestic Product Chain-type Price Index ("GDP-CPI") (§§ 22-26); to establish a uniform filing deadline of April 1 for all ARMIS reports; and to retain the

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ARMIS filing requirements for all incumbent LECs for which annual operating revenues, both regulated and nonregulated, exceed the defined inflation-adjusted threshold (§§ 30-33). With the exception of the proposed uniform filing date for all ARMIS reports, AT&T supports the Commission's proposals.<sup>1</sup>

I. The Commission Should Retain the 60-Day CAM Notice Requirement.

Under the Commission's current rules, ILECs are required to file their cost allocation manual changes on 60 days notice when they relate to changes in cost apportionment and time reporting. The Commission specified this advance notice period precisely because of the need for pre-effectiveness review of changes to cost categories and their allocation mechanisms and employee time reporting, stating that "it is very important for the Commission to obtain current information on the cost categories and how these are allocated between regulated and nonregulated activities."<sup>2</sup> The need for review of these types of CAM

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<sup>1</sup> As several parties point out, a uniform filing date for all ARMIS reports could impose unnecessary burdens on ILECs without any offsetting regulatory benefits. See Ameritech at 3; Bell Atlantic at 2-3; Pacific at 4; USTA at 8-9; U S WEST at 5. Accordingly, AT&T sees no need for adoption of this proposal.

<sup>2</sup> Ameritech Operating Companies' Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, 3 FCC Rcd. 433, 444, paras. 98-99 (1988).

changes remains. As the Commission explains in the NPRM (¶ 21), retention of this 60-day notice requirement will help ensure that each carrier's CAM reflects its new ventures and changes in the carrier's accounting for its existing ventures.

As MCI (at 2-3) correctly points out, this notice requirement "makes it possible for the Commission and the public to review changes to the LECs' cost allocation procedures . . . prior to implementation." Given the express proscriptions in the Telecommunications Act of 1996 that prohibits the Bell Operating Companies ("BOCs") and, in some cases, all ILECs from using their telephone exchange service and exchange access operations from subsidizing their competitive ventures, it remains essential for the Commission to review and approve LEC cost allocation procedures before they take effect. Although the Act requires the Commission to permit LECs to file CAM changes annually, AT&T agrees with MCI (at 4) that "nothing in the Act limits the Commission's authority to scrutinize changes to LEC cost allocation procedures before they are implemented, when such scrutiny is required in order to guard against cross-subsidy."

As would be expected, the RBOCs contend that the 60-day notice requirement, along with all of the Commission's accounting safeguards, are unnecessary for

price cap carriers, particularly those which have adopted a "no sharing" productivity offset.<sup>3</sup> To the contrary, as the Commission has long recognized, "[a]lthough reducing cross-subsidy incentives, LEC price cap regulation does not by itself eliminate improper cost allocation as a matter of regulatory concern, but serves as an effective complement to cost accounting, reporting, auditing, and enforcement safeguards."<sup>4</sup>

Moreover, as AT&T and others showed in the Commission's proceeding on accounting safeguards under the 1996 Act, the Commission's existing accounting safeguards -- including CAMs which help ensure that the LECs' regulated operations do not improperly cross-subsidize their nonregulated ventures -- remain relevant under the Commission's price cap regime. This is so both because LECs have the option in future years of choosing a productivity offset with a sharing obligation and because the productivity offset is itself periodically readjusted and derived from the LECs' reported costs. In all events, even under a pure price cap regime, the Commission would have to monitor continuously the LECs' costs and returns to maintain

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<sup>3</sup> See, e.g., Ameritech at 2; BellSouth at 2-4; Pacific at 2; SWBT at 5.

<sup>4</sup> Computer III Remand Proceedings: Bell Operating Company Safeguards; and Tier 1 Local Exchange Company Safeguards, 6 FCC Rcd. 174, 178, para. 25 (1990); see also id., 6 FCC Rcd. 7571, 7596-97 n.95 (1991).

the caps in rough alignment with their costs and to prevent them from using their market power to earn exorbitant returns.<sup>5</sup> Accordingly, the Commission should retain the 60-day notice requirement for CAM changes to permit adequate review, as it proposes.<sup>6</sup>

II. The Commission Should Not Adopt USTA's Proposals for Revised Filing Thresholds for CAMs and ARMIS.

USTA proposes in its comments (at 2-5) that the Commission increase the threshold for filing CAMs and ARMIS reports, either by: (i) forbearing from applying these requirements to LECs with less than 2 percent in aggregate of the Nation's subscriber lines; (ii) increasing the current filing threshold to \$250 million of total LEC operating revenue; or (iii) requiring only LECs with regulated revenues of \$100 million or more (instead of total operating revenues) to file CAMs and ARMIS reports. Contrary to these suggestions, the Commission should retain

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<sup>5</sup> See e.g., AT&T Reply Comments in Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, filed September 10, 1996, at 3-4, 14-15.

<sup>6</sup> Nor is there any basis for shortening the CAM notice requirements as Pacific (at 3) proposes, or tying them to tariff notice periods as NYNEX (at 3) suggests. CAM changes affecting cost apportionment and time reporting are not generally associated with new regulated, tariffed offerings; thus there is no reason to tie them to tariff notice periods. A shortened notice period would, moreover, undermine pre-effectiveness review.

its existing filing thresholds for both CAMs and ARMIS reports, as adjusted for inflation based on the GDP-CPI.

As the Commission correctly recognizes,

"continuing to require ARMIS reports from those incumbent IECs for which annual operating revenues, both regulated and nonregulated, exceed a defined, inflation-adjusted threshold is necessary to provide us with the financial and operating data we need to administer our accounting, cost allocation, jurisdictional separations, and access charge rules, and to preserve our ability to monitor industry developments and quantify the effects of alternative regulatory proposals. Our ability to detect improper subsidization of nonregulated services in violation of our cost allocation rules, as also mandated by the 1996 Act, would be impaired by a reporting requirement threshold based solely on regulated revenues."<sup>7</sup>

Similarly, adopting either of USTA's alternative proposals could exempt IECs with substantial revenues from filing requirements. For example, among others, SNET would be exempted from filing requirements under a 2 percent of nationwide lines threshold, and an increase in the annual operating revenue threshold to \$250 million would exempt both Lincoln and Citizens from these filing requirements.

While AT&T does not suggest that IEC CAM and ARMIS filing requirements be expanded, there have been no material changed circumstances that would warrant revisiting the application of these rules, beyond the statutorily-mandated directive that CAMs and ARMIS filings be permitted

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<sup>7</sup> NPRM at para. 32 (footnotes omitted).

to be made annually. Indeed, with the increasing participation of ILECs in new markets, including long distance (which the Commission correctly proposes in CC Docket 96-150 to treat as a nonregulated activity for accounting purposes), it becomes even more important to have adequate monitoring procedures in place to guard against improper cross-subsidization.

For this reason, the Commission should reject SWBT's suggestion (at 8) that the ARMIS 43-01 financial report contain only annual data because it would now be filed annually rather than on a quarterly basis. To the contrary, as MCI points out, the Commission should clarify that carriers are still required to report cost and revenue data by quarter, even though the data would be filed in a single annual report.<sup>8</sup> "Continued reporting of quarterly cost and revenue information will provide the Commission with a consistent data series, allowing comparison of carrier operations with prior years. In addition, as MCI has noted on several occasions, quarterly variations in LEC expenses must be scrutinized to ensure that LECs do not use disproportionate fourth quarter expenses to reduce their reported rate of return."<sup>9</sup> Moreover, the availability of

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<sup>8</sup> MCI Petition for Clarification, filed October 25, 1996, in CC Docket No. 96-193, at 2.

<sup>9</sup> Id. (footnotes omitted).

quarterly data would permit more detailed analyses and tracking of costs and revenues to guard against cross-subsidization. For these reasons, the Commission should adhere to its prior findings as to the need for a monitoring data base that is stable over time.<sup>10</sup>

At the same time, as Teleport (at 3) explains, there is no reason to apply CAM and ARMIS requirements to competitive local exchange carriers ("CLECs") which do not possess bottleneck monopolies and thus have no ability to engage in unlawful cross-subsidization regardless of whether their annual company operating revenues exceed the prescribed threshold. Similarly, contrary to Bell Atlantic's suggestion (at 4), there is no need to extend service quality reports to CLECs, who will have to maintain high quality service or otherwise risk losing customers to the ILEC. Accordingly, the Commission should clarify that the current CAM and ARMIS reporting requirements will not apply to CLECs. To the extent that the Commission wishes to consider any form of reporting for CLECs, the matter should be addressed, as Teleport (at 5) suggests, in a separate rulemaking.

WHEREFORE, AT&T urges the Commission to retain for ILECs (i) the 60-day CAM notice requirement; (ii) the

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<sup>10</sup> Automated Reporting Requirements for Certain Class A and Tier 1 Telephone Companies (Parts 31, 43, 67, and 69 of the FCC's Rules), 3 FCC Rcd. 6375, 6378, para. 30 (1988).



current revenue thresholds for filing CAMs and ARMIS reports as adjusted for inflation using the GDP-CPI; and  
(iii) continue to require the filing of cost and revenue data by quarter in the annual ARMIS reports.

Respectfully submitted,

AT&T CORP.

By



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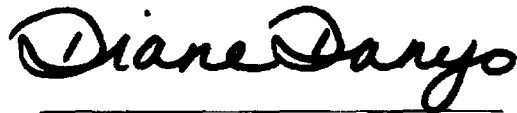
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November 5, 1996

CERTIFICATE OF SERVICE

I, Diane Danyo, do hereby certify that on this 5th day of November, 1996, a copy of the foregoing Reply Comments of AT&T Corp. was mailed by U.S. first class mail, postage prepaid, to the parties on the attached Service List.



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